

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Kalkaska	County Kalkaska
Fiscal Year End 2/28/06	Opinion Date 5/18/06	Date Audit Report Submitted to State 8/31/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☒ ☐ The local unit is free of repeated comments from previous years.
- ☒ ☐ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit		
Certified Public Accountant (Firm Name) Harris Group, CPAs		Telephone Number 231-946-8930		
Street Address 1107 E. 8TH STREET		City Traverse City	State MI	Zip 49686
Authorizing CPA Signature		Printed Name Ronald G Harris, CPA		License Number 1101024798

**VILLAGE OF KALKASKA, MICHIGAN**  
**REPORT ON FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

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This section of Village of Kalkaska's annual financial report presents its discussion and analysis of the government's financial performance during the year ending February 28, 2006. In future years, this section will emphasize current-year results in comparison with the prior year. Please be advised that this report does not present some prior year data, for it was not readily available. The lack of prior year data is due to this reporting period being the first time the district implemented the reporting changes called for by GASB Statement No. 34.

### **Financial Highlights**

The Village of Kalkaska utilized the 2005-06 fiscal year to improve the organization of its finances by carefully tracking receipts and expenditures throughout the year. The budget was amended numerous times to provide the Council with a clearer picture of where the Village was situated financially during the year. The Village purchased a new facility during the year. The Village also purchased new accounting software that was more user friendly and provided clearer reports for Council.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to Village of Kalkaska's basic financial statements. Village of Kalkaska's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Village of Kalkaska's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of Village of Kalkaska's assets and liabilities, with the differences between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Village of Kalkaska is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Both the government-wide financial statements distinguish functions of Village of Kalkaska that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Village of Kalkaska include general government, public safety, health and welfare, recreation and culture and other services. The business-type activities of Village of Kalkaska include public and regional transportation, commissary inmate trust and purchasing of delinquent taxes.

The government-wide financial statements include not only Village of Kalkaska itself (known as the primary government), but also the legally separate Downtown Development Authority for which Village of Kalkaska is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Village of Kalkaska, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Village of Kalkaska can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governments' near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Village of Kalkaska maintains 7 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, major street fund, local street fund and debt service fund, each of which are considered to be major funds. Data from the other 3 governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Village of Kalkaska adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for the general and special revenue funds to demonstrate compliance with this budget.

**Proprietary funds.** Village of Kalkaska maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Village of Kalkaska uses enterprise funds to account for its Water and Sewer Funds

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each enterprise funds, all of which are considered to be major funds of Village of Kalkaska.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Village of Kalkaska's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Village of Kalkaska**  
**Management's Discussion and Analysis**  
**February 28, 2006**

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**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Village of Kalkaska, assets exceeded liabilities by \$6,267,728 and \$5,605,201 as of February 28, 2006 and 2005.

A large portion of Village of Kalkaska's net assets is its investment in capital assets, less any debt to acquire those assets that is still outstanding. Village of Kalkaska uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although Village of Kalkaska's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from future operations, since the capital assets themselves cannot be used to liquidate these liabilities.

**VILLAGE OF KALKASKA**  
**NET ASSETS**  
**FEBRUARY 28, 2006 AND 2005**

	2006			2005		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 616,610	\$ 2,022,881	\$ 2,639,491	\$ 819,036	\$ 1,552,009	\$ 2,371,045
Capital assets	1,485,127	9,472,064	10,957,191	956,542	9,142,029	10,098,571
<b>Total assets</b>	<b>\$ 2,101,737</b>	<b>\$ 11,494,945</b>	<b>\$ 13,596,682</b>	<b>\$ 1,775,578</b>	<b>\$ 10,694,038</b>	<b>\$ 12,469,616</b>
Long-term liabilities outstanding	\$ 135,065	\$ 6,306,669	\$ 6,441,734	\$ 130,000	\$ 6,450,162	\$ 6,580,162
Other liabilities	347,002	540,218	887,220	69,981	214,272	284,253
<b>Total liabilities</b>	<b>482,067</b>	<b>6,846,887</b>	<b>7,328,954</b>	<b>199,981</b>	<b>6,664,434</b>	<b>6,864,415</b>
Net assets:						
Invested in capital assets, net of related debt	1,330,062	3,059,395	4,389,457	780,899	2,582,867	3,363,766
Restricted	9,690	188,557	198,247	14,670	186,284	200,954
Unrestricted	279,918	1,400,106	1,680,024	780,028	1,260,453	2,040,481
<b>Total net assets</b>	<b>1,619,670</b>	<b>4,648,058</b>	<b>6,267,728</b>	<b>1,575,597</b>	<b>4,029,604</b>	<b>5,605,201</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,101,737</b>	<b>\$ 11,494,945</b>	<b>\$ 13,596,682</b>	<b>\$ 1,775,578</b>	<b>\$ 10,694,038</b>	<b>\$ 12,469,616</b>

The Village's net assets increased by \$662,527 during the 2005-06 fiscal year. This was due to receiving a \$1,200,000 capital grant (\$497,646 received through February 28, 2006) for the construction of the iron removal plant.

**Village of Kalkaska**  
**Management's Discussion and Analysis**  
**February 28, 2006**

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**VILLAGE OF KALKASKA**  
**CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006 AND 2005**

	2006			2005		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 65,290	\$ 1,106,710	\$ 1,172,000	\$ 35,116	\$ 1,000,782	\$ 1,035,898
Operating grants and contributions	198,175		198,175	208,047		208,047
Capital grants and contributions		497,646	497,646		385,366	385,366
General revenues:						
Property taxes	632,830		632,830	596,107		596,107
State shared revenues	193,048		193,048	196,600		196,600
Investment earnings	75,677	9,092	84,769	42,395	12,045	54,400
Miscellaneous revenues	4,588	2,356	6,944	14,317	3,879	18,196
Gain on sale of assets	3,050	121,074	124,124	22,404		22,404
Total revenues	1,172,658	1,736,878	2,909,536	1,114,986	1,402,072	2,517,018
Expenses:						
Governmental activities:						
Judicial	51,492		51,492	43,062		43,062
General government	118,310		118,310	123,447		123,447
Public safety	484,600		484,600	456,453		456,453
Public works	351,380		351,380	315,951		315,951
Recreation	16,659		16,659	18,295		18,295
Other	67,781		67,781	62,493		62,493
Interest on long-term debt	9,363		9,363	10,217		10,217
Water fund		291,157	291,157		277,464	277,464
Sewer fund		827,267	827,267		719,961	719,961
Total expenses	1,099,585	1,118,424	2,218,009	1,029,918	997,425	2,027,343
Increase in net assets before transfers	73,073	618,454	691,527	85,068	404,647	489,672
Transfers in (out)	(29,000)		(29,000)	(32,000)		(32,000)
Increase (decrease) in net assets	44,073	618,454	662,527	53,068	404,647	457,672
Net assets, beginning	1,575,597	4,029,604	5,605,201	1,522,529	3,624,957	5,147,486
Net assets, ending	\$ 1,619,670	\$ 4,648,058	\$ 6,267,728	\$ 1,575,597	\$ 4,029,604	\$ 5,605,201

Property tax revenues increased by \$36,723. Health care insurance costs increased by \$32,753 causing the Village to maintain a close watch on all other expenses through the year.



## Financial Analysis of the Government's Funds

As noted earlier, Village of Kalkaska uses fund accounting to insure and demonstrate compliance with finance-related requirements.

**Governmental funds.** The focus of Village of Kalkaska's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Village of Kalkaska's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of February 28, 2006, Village of Kalkaska's governmental funds reported combined ending fund balances of \$205,090. Approximately 95% of this total constitutes unreserved fund balance, which is available for spending at Village of Kalkaska's discretion. The remainder of the fund balance is reserved for specific commitments.

The general fund is the chief operating fund of Village of Kalkaska. As of February 28, 2006, unreserved fund balance of the general fund was \$(337,330). This negative fund balance was the result of purchasing a new office building for the Village offices. As a measure of liquidity, it may be useful to compare the unreserved fund balance to the total fund expenditures.

The fund balance of Village of Kalkaska's general fund decreased by \$495,217 during the current fiscal year. Key factors in this reduction are as follows:

The Village purchased a new office facilities during the year. Tax revenues increase by \$36,723. Health care costs increased by \$32,753 for the year. Money was set aside for future health insurance premium payments. And the Village increased its share of the payments for employee retirement accounts to the Municipal Employees Retirement System.

**Proprietary funds.** Village of Kalkaska's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary funds at February 28, 2006 were \$1,400,106.

## General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor (\$48,858 increase in appropriations) and can be briefly summarized as follows:

Funds were appropriated for future health insurance premiums. There was an increase in Medicare insurance reimbursements. There was an increase in the reimbursements for prescriptions.

### **Capital Asset and Debt Administration**

**Capital assets.** Village of Kalkaska's investment in capital assets for its governmental and business type activities as of February 28, 2006, amounts to \$10,957,191 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

The Village purchased a new facility for \$530,165.

**Long-term debt.** At February 28, 2006, Village of Kalkaska had total bonded debt outstanding of \$6,243,000 and notes payable of \$253,694.

Major debt transactions during the current fiscal year included the following:

The Village has a long-term loan for the Clean Water Plant. Repayment of a loan for construction of the IDC II Park was to start in May, 2006; however, the date has been pushed back a year to allow for further marketing of the park. The loan amount will be reduced by ½ if sales of lots in the park result in the creation of new jobs to Michigan. The loan must be repaid by 2011.

### **Economic Factors and Next Years Budgets and Rates**

The 2006-07 budget was prepared with a slight increase in income due to development activity and property taxes. Plans to reduce health care costs are underway, and all expenditures are examined to verify their need to fulfill the mission of the Village.

### **Requests for Information**

This financial report is designed to provide a general overview of Village of Kalkaska's finances for all those with an interest in the government's finances. Questions concerning any of the financial information should be addressed to the Village Manager, 200 Hyde Street, Kalkaska, MI 49646.



### **Independent Auditor's Report**

Members of the Village Council  
Village of Kalkaska  
Kalkaska, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the Village of Kalkaska, as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Kalkaska management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the report of other auditors, provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Kalkaska, as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2006 on our consideration of the Village of Kalkaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Village of Kalkaska  
Independent Auditor's Report

The managements discussion and analysis and required budgetary comparison information identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally if inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Kalkaska's, basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants  
May 18, 2006

## **FINANCIAL SECTION**

**VILLAGE OF KALKASKA**  
**STATEMENT OF NET ASSETS**  
**FEBRUARY 28, 2006**

	Governmental	Business-type		Component Unit
	Activities	Activities	Total	Downtown Development Authority
<b>ASSETS</b>				
Cash	\$ 493,867	\$ 1,448,986	\$ 1,942,853	\$ 396,976
Taxes receivable	566		566	33
Accounts receivable		93,049	93,049	
Due from other governmental units	7,641		7,641	41,936
Due from State	96,965		96,965	
Inventories of supplies	1,647	9,707	11,354	
Prepaid expenses	15,924	18,582	34,506	
Restricted assets – cash		188,557	188,557	
<b>Total Current Assets</b>	<b>616,610</b>	<b>1,758,881</b>	<b>2,375,491</b>	<b>438,945</b>
Capital asset, net of accumulated depreciation	1,485,127	8,925,076	10,410,203	
Construction in progress		546,988	546,988	
Due from other funds		264,000	264,000	
<b>TOTAL ASSETS</b>	<b>\$ 2,101,737</b>	<b>\$ 11,494,945</b>	<b>\$ 13,596,682</b>	<b>\$ 438,945</b>
<b>LIABILITIES:</b>				
Accounts payable	\$ 33,964	\$ 386,018	\$ 419,982	\$ 5,925
Checks written in excess of deposits	10,054		10,054	
Current portion of bonds and notes payable	20,000	106,000	126,000	
Accrued liabilities	18,068	48,200	66,268	411
Due to other governmental units	350		350	
Deferred revenues	566		566	40
Notes payable	25,065	228,629	253,694	
<b>TOTAL LIABILITIES</b>	<b>108,067</b>	<b>768,847</b>	<b>876,914</b>	<b>6,376</b>
<b>Non-current liabilities</b>				
Bonds payable	110,000	6,007,000	6,117,000	
Capital lease payable		71,040	71,040	
Due to other funds	264,000		264,000	
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>374,000</b>	<b>6,078,040</b>	<b>6,452,040</b>	
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	1,330,062	3,059,395	4,389,457	
Net assets:				
Reserved	9,690	188,557	198,247	432,569
Unreserved	279,918	1,400,106	1,680,024	
<b>TOTAL FUND EQUITY</b>	<b>1,619,670</b>	<b>4,648,058</b>	<b>6,267,728</b>	<b>432,569</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 2,101,737</b>	<b>\$ 11,494,945</b>	<b>\$ 13,596,682</b>	<b>\$ 438,945</b>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental activities:				
Legislative	\$ 51,492	\$	\$	\$
General government	118,310	15,616		
Public safety	484,600	25,523	1,124	
Public works	351,380	24,151	197,051	
Recreation	16,659			
Other	67,781			
Interest on long term debt	9,363			
Total governmental activities	1,099,585	65,290	198,175	
Business-type activities:				
Water fund	291,157	379,490		497,646
Sewer fund	827,267	727,220		
Total business-type activities	1,118,424	1,106,710		
Total primary government	\$ 2,218,009	\$ 1,172,000	\$ 198,175	\$ 497,646
Component units:				
Downtown Development Authority	\$ 24,102			

General Revenues:

Property Taxes – general purposes  
Property Taxes – debt  
State Shared Revenue  
Unrestricted investment earnings  
Miscellaneous revenues  
Loss on disposal of fixed assets  
Transfers

Total general revenues and transfers

Change in net assets

Net assets – beginning

Net assets – ending

The accompanying notes are an integral part of these statements.

Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	Downtown Development Authority
\$ (51,492)	\$	\$ (51,492)	\$
(102,694)		(102,694)	
(457,953)		(457,953)	
(130,178)		(130,178)	
(16,659)		(16,659)	
(67,781)		(67,781)	
(9,363)		(9,363)	
(836,120)		(836,120)	
	585,979	585,979	
	(100,047)	(100,047)	
	485,932	485,932	
\$ (836,120)	\$ 485,932	\$ (350,188)	
			\$ (24,102)
615,110		615,110	109,766
17,720		17,720	
193,048		193,048	
75,677	9,092	84,769	107
4,588	2,356	6,944	225
3,050	121,074	124,124	
(29,000)		(29,000)	
880,193	132,522	1,012,715	110,098
44,073	618,454	662,527	85,996
1,575,597	4,029,604	5,605,201	346,573
\$ 1,619,670	\$ 4,648,058	\$ 6,267,728	\$ 432,569



**VILLAGE OF KALKASKA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
FEBRUARY 28 2006**

	General Fund	Major Street	Local Street	Debt Service	Other Governmental Funds	Total
<b>ASSETS</b>						
Cash	\$ 166,834	\$ 155,288	\$ 58,158	\$	\$ 29,355	\$ 409,635
Receivables:						
Taxes	531		35			566
Due from:						
Other governmental units				7,641		7,641
State	59,925	27,227	9,293		520	96,965
Other funds	250	160,000	106,000		346	266,596
Inventory of supplies	1,647					1,647
Prepaid expenses	8,181	1,312	963			10,456
<b>TOTAL ASSETS</b>	<u>\$ 237,368</u>	<u>\$ 343,827</u>	<u>\$ 174,449</u>	<u>\$ 7,641</u>	<u>\$ 30,221</u>	<u>\$ 793,506</u>
<b>LIABILITIES &amp; FUND EQUITY</b>						
<b>LIABILITIES:</b>						
Accounts payable	\$ 28,627	\$	\$ 649	\$	\$	\$ 29,276
Checks written in excess of deposits				10,054		10,054
Accrued liabilities	14,594	1,953	1,027			17,574
Due to other funds	530,596					530,596
Due to other governmental units	350					350
Deferred revenue	531		35			566
<b>TOTAL LIABILITIES</b>	<u>574,698</u>	<u>1,953</u>	<u>1,711</u>	<u>10,054</u>		<u>588,416</u>
<b>FUND EQUITY:</b>						
Fund balances:						
Reserved for inventory	1,647					1,647
Reserved for debt service				(2,413)		(2,413)
Reserved for prepaid expenses	8,181	1,312	963			10,456
Unreserved:						
Undesignated	(347,158)	340,562	171,775		30,221	195,400
<b>TOTAL FUND EQUITY</b>	<u>(337,330)</u>	<u>341,874</u>	<u>172,738</u>	<u>(2,413)</u>	<u>30,221</u>	<u>205,090</u>
<b>TOTAL LIABILITIES &amp; FUND EQUITY</b>	<u>\$ 237,368</u>	<u>\$ 343,827</u>	<u>\$ 174,449</u>	<u>\$ 7,641</u>	<u>\$ 30,221</u>	<u>\$ 793,506</u>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA**  
**RECONCILIATION OF TOTAL GOVERNMENT FUND BALANCE**  
**TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**FEBRUARY 28, 2006**

*Amounts reported for governmental activities in the statement of net assets are different because:*

Total Governmental Fund Balances	\$ 205,090
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Capital assets	2,641,156
Accumulated depreciation	(1,156,028)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets	84,517
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Notes payable	(25,065)
Bonds payable	(130,000)
Net Assets of Governmental Activities	\$ <u>1,619,670</u>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

	General Fund	Major Street	Local Street	Debt Service	Other Governmental Funds	Total
<b>REVENUES:</b>						
Taxes	\$ 575,365	\$	\$ 39,745	\$ 17,720	\$	\$ 632,830
State grants	193,048	145,547	51,504		1,124	391,223
Contributions from local units	5,901					5,901
Charges for services	9,715	11,110	3,030			23,855
Fines	25,523					25,523
Interest, rents, royalties	69,078	3,418	2,753		4	75,254
Other	600	36				636
<b>TOTAL REVENUES</b>	<b>879,230</b>	<b>160,111</b>	<b>97,032</b>	<b>17,720</b>	<b>1,128</b>	<b>1,155,221</b>
<b>EXPENDITURES:</b>						
Current:						
Legislative	50,268					50,268
General government	659,728					659,728
Public safety	455,143				1,316	456,459
Public works	91,124	130,438	109,144			330,706
Recreation	16,230					16,230
Other	66,003					66,003
Debt service:						
Principal	5,578			15,000		20,578
Interest	1,373			7,990		9,363
<b>TOTAL EXPENDITURES</b>	<b>1,345,447</b>	<b>130,438</b>	<b>109,144</b>	<b>22,990</b>	<b>1,316</b>	<b>1,609,335</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(466,217)</b>	<b>29,673</b>	<b>(12,112)</b>	<b>(5,270)</b>	<b>(188)</b>	<b>(454,114)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating transfers in (out)	(29,000)	(15,007)				(44,007)
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER FINANCIAL USES</b>	<b>(495,217)</b>	<b>14,666</b>	<b>(12,112)</b>	<b>(5,270)</b>	<b>(188)</b>	<b>(498,121)</b>
<b>FUND BALANCE, beginning</b>	<b>157,887</b>	<b>327,208</b>	<b>184,850</b>	<b>2,857</b>	<b>30,409</b>	<b>703,211</b>
<b>FUND BALANCE, ending</b>	<b>\$ (337,330)</b>	<b>\$ 341,874</b>	<b>\$ 172,738</b>	<b>\$ (2,413)</b>	<b>\$ 30,221</b>	<b>\$ 205,090</b>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA**  
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

*Amounts reported for governmental activities in the statement of net assets are different because:*

Net change in fund balance – total governmental funds	\$ (498,121)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay recorded as a capital expense	567,162
Depreciation recorded as an expense	(59,966)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with Governmental activities	14,420
Repayment of bond and note principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	20,578
	<hr/>
Change in net assets of governmental activities	<u>\$ 44,073</u>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
FEBRUARY 28, 2006**

	Business-type Activities – Enterprise Funds			Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Total	Equipment
<b>ASSETS</b>				
Cash	\$ 522,149	\$ 926,837	\$ 1,448,986	\$ 84,232
Accounts receivable	23,672	69,377	93,049	
Due from other funds		264,000	264,000	
Inventory of supplies	6,107	3,600	9,707	
Prepaid expenses	1,444	17,138	18,582	5,467
Restricted Assets:				
Cash	73,852	114,705	188,557	
Land		87,934	87,934	
Buildings		62,661	62,661	
Construction work in progress	515,658	31,330	546,988	
Improvements other than buildings	3,175,574	8,300,461	11,476,035	
Machinery and equipment	34,400	191,623	226,023	480,281
Accumulated depreciation	(1,230,482)	(1,697,095)	(2,927,577)	(322,444)
<b>TOTAL ASSETS</b>	<u>\$ 3,122,374</u>	<u>\$ 8,372,571</u>	<u>\$ 11,494,945</u>	<u>\$ 247,536</u>
<b>LIABILITIES &amp; FUND EQUITY</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 309,535	\$ 76,483	\$ 386,018	\$ 4,688
Accrued liabilities	6,649	41,551	48,200	494
Due to other funds				
Notes payable	68,783	159,846	228,629	
Capital lease payable		71,040	71,040	
Bonds payable – short term	31,400	53,600	85,000	
Revenue bonds payable	400,000	5,628,000	6,028,000	
<b>TOTAL LIABILITIES</b>	<u>816,367</u>	<u>6,030,520</u>	<u>6,846,887</u>	<u>5,182</u>
<b>NET ASSETS:</b>				
Invested in capital assets – net of related debt	1,994,967	1,064,428	3,059,395	157,837
Restricted for debt service	73,852	114,705	188,557	
Unrestricted	237,188	1,162,918	1,400,106	84,517
<b>TOTAL NET ASSETS</b>	<u>2,306,007</u>	<u>2,342,051</u>	<u>4,648,058</u>	<u>242,354</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<u>\$ 3,122,374</u>	<u>\$ 8,372,571</u>	<u>\$ 11,494,945</u>	<u>\$ 247,536</u>

**VILLAGE OF KALKASKA  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

	Business-type Activities – Enterprise Funds			Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Total	Equipment
OPERATING REVENUES:				
Charges for services	\$ 379,490	\$ 727,220	\$ 1,106,710	\$ 103,932
Interest	2,012	7,080	9,092	424
 TOTAL OPERATING REVENUES	 381,502	 734,300	 1,115,802	 104,356
OPERATING EXPENSES				
Personal services	140,788	91,222	232,010	42,347
Contractual services	20,338	265,718	286,056	9,827
Supplies	4,066	2,228	6,294	15,464
Materials	13,385	1,422	14,807	
Heat, light, and maintenance	17,602	8,593	26,195	
Repairs and maintenance	1,266	9,246	10,512	18,385
Equipment rental	6,391		6,391	
Depreciation	64,346	180,052	244,398	25,922
 TOTAL OPERATING EXPENSES	 268,182	 558,481	 826,663	 111,945
 OPERATING INCOME (LOSS)	 113,320	 175,819	 289,139	 (7,589)
NON-OPERATING INCOME (EXPENSES):				
Interest and fiscal charges	(22,975)	(268,786)	(291,761)	
Gain on sale of fixed assets		121,074	121,074	3,050
Grant revenue	497,646		497,646	
Other revenue	1,229	1,127	2,356	3,952
Transfers from other funds				15,007
 TOTAL NON-OPERATING INCOME (EXPENSES)	 475,900	 (146,585)	 329,315	 22,009
 CHANGE IN NET ASSETS	 589,220	 29,234	 618,454	 14,420
NET ASSETS, beginning	1,716,787	2,312,817	4,029,604	227,934
NET ASSETS, ending	\$ 2,306,007	\$ 2,342,051	\$ 4,648,058	\$ 242,354

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

	Business-type Activities – Enterprise Funds			Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Total	Equipment
Cash Flows From Operating Activities:				
Other revenues and grants	\$ 1,229	\$ 1,127	\$ 2,356	\$ 3,952
Cash received from customers	386,223	455,862	842,085	103,932
Cash paid to suppliers and employees	100,116	(353,165)	(253,049)	(80,224)
Net Cash Provided By Operating Activities	487,568	103,824	591,392	27,660
Cash Flows From Capital And Related Financing Activities:				
Principal paid on long-term debt	(31,400)	(155,093)	(186,493)	
Principal received on long-term debt		40,000	40,000	
Capital Grants	497,646		497,646	
Interest paid on long-term debt	(22,975)	(268,786)	(291,761)	
Acquisition of plant and bond covenant	(590,680)	137,321	(453,359)	(44,262)
Increase in restricted cash – bond covenant	(1,689)	(584)	(2,273)	
Transfers from other funds				15,007
Net Cash (Used In) Capital And Related Financing Activities	(149,098)	(247,142)	(396,240)	(29,255)
Cash Flows From Investing Activities:				
Interest on investments	2,012	7,080	9,092	424
Net Cash Provided By Investing Activities	2,012	7,080	9,092	424
Net Increase (Decrease) in Cash & Cash Equivalents	340,482	(136,238)	204,244	(1,171)
Cash & Cash Equivalents, beginning	181,667	1,063,075	1,244,742	85,403
Cash & Cash Equivalents, ending	\$ 522,149	\$ 926,837	\$ 1,448,986	\$ 84,232

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2006  
(Continued)**

	<u>Business-type Activities – Enterprise Funds</u>			Governmental Activities - Internal Service Fund
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	<u>Equipment</u>
Reconciliation of Net Operating Income to Net Cash				
Provided By Operating Activities:				
Net Operating Income (Loss)	\$ 113,320	\$ 175,819	\$ 289,139	\$ (7,589)
Adjustments to Reconcile Net Operating Income to Net				
Cash Provided by Operating Activities:				
Depreciation	64,346	180,052	244,398	25,922
Other revenue and grants	1,229	1,127	2,356	3,952
Decrease (increase) in:				
Receivables	6,733	(271,358)	(264,625)	
Inventories	562	(767)	(205)	921
Prepaid expenses	(875)	1,350	475	
Increase (decrease) in:				
Accounts payable and accrued liabilities	304,265	24,681	328,946	4,878
Interest Income classified as an investing activity	<u>(2,012)</u>	<u>(7,080)</u>	<u>(9,092)</u>	<u>(424)</u>
Net Cash Provided By Operating Activities	<u>\$ 487,568</u>	<u>\$ 103,824</u>	<u>\$ 591,392</u>	<u>\$ 27,660</u>

The accompanying notes are an integral part of these statements.



**VILLAGE OF KALKASKA  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
FEBRUARY 28, 2006**

	<u>Payroll Fund</u>	<u>Post Retirement Benefit Fund</u>
ASSETS		
Cash	\$ 533	\$ 386,611
Amounts to be provided by other funds	<u>50,965</u>	
 TOTAL ASSETS	 <u><u>\$ 51,498</u></u>	 <u><u>\$ 386,611</u></u>
LIABILITIES		
Accrued liabilities	\$ 51,498	\$
Amount provided by other funds for retiree insurance		<u>386,611</u>
 TOTAL LIABILITIES	 <u><u>\$ 51,498</u></u>	 <u><u>\$ 386,611</u></u>

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Introduction**

The accounting policies of the Village of Kalkaska (Village) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of significant accounting policies by the Village.

**B. Reporting Entity**

The Village of Kalkaska was organized in 1887 and covers an area of approximately two square miles. The Village operates under an elected Council (7 members) and provides services to its more than 2,552 residents in many areas including law enforcement, street development and maintenance, parks and sewer and water services.

In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Village's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Village and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Village and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Village is able to exercise oversight responsibilities. Based upon the application of these criteria, no required organizations have been omitted from these financial statements.

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**C. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

**D. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when a payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Measurement Focus, Basis of Accounting and Basis of Presentation - continued**

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund.

The *major street fund* accounts for the maintenance and construction of the major street system.

The *local street fund* accounts for the maintenance and construction of the local street system.

The *debt service fund* reports the activities of Downtown Development Authority Bonds which the Village has a legal responsibility for repayment.

The government reports the following major proprietary funds:

The *Water fund* accounts for the revenue and expenses of operating the Village's water distribution system.

The *Sewer fund* accounts for the revenue and expenses of operating the Village's sewer collection system.

Additionally, the government reports the following fund types:

The *internal service fund* is established for the financing of goods and services provided by one department to other departments of the Village on a cost reimbursement basis. The Village's Equipment Fund is an Internal Service Fund.

The *agency fund* is custodial in nature and does not present the results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The government has not elected to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**D. Measurement Focus, Basis of Accounting and Basis of Presentation - continued**

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the governments enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**E. Budgets**

Annual operating budgets are adopted by the Village Council for the General, Special Revenue and Debt Service Funds in accordance with Public Act 621 of 1978.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. At the first meeting in February, the Village Manager submits to the Village Council a proposed operating budget for the year commencing the following March 1st. The operating budget includes proposed expenditures and the means of financing them for the General and Special Revenue Funds.
- b. Public hearings are conducted at the Village Offices to obtain taxpayer comments.
- c. Prior to February 28, the budget is legally enacted on a departmental (activity) basis through passage of a resolution.
- d. The President or their designee is authorized to transfer budgeted amounts within departmental appropriation accounts, however, any revisions that alter the total expenditures of any department must be approved by the Village Council.
- e. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with generally accepted accounting principles.
- f. Budget appropriations lapse at year end.
- g. The original budget was amended during the year in compliance with the Village procedures and applicable state laws. The budget to actual expenditures in the financial statements represent the amended budgetary expenditures of the Village Council.

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**F. Encumbrance System**

The Village does not use an encumbrance system.

**G. Assets and Liabilities**

**1. Cash and investments**

Michigan Compiled Laws, Section 129.91, authorizes the Village of Kalkaska to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village Council Board has designated one bank for the deposit of Village funds.

The Village's deposits and investments are in accordance with statutory authority.

**2. Accounts Receivable**

It is the Village's policy to place delinquent sewer and water bills on the tax rolls on an annual basis.

**3. Inventories**

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

**4. Utility Plant In Service and Depreciation**

Utility plant in service of the Enterprise Fund is stated at cost. Depreciation is computed over the estimated useful life of the assets using the straight-line method.

**5. Internal Service Fund Equipment and Depreciation**

Equipment in service of the Internal Service Fund is stated at cost. Depreciation is computer over the estimated useful life of the assets using the straight-line method.

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**G. Assets and Liabilities**

**6. Capital Assets**

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Donated fixed assets are stated at their fair market value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

The accounting and financial reporting treatment of a funds is determined by its measurement focus. General capital assets are long-lived assets of the Village as a whole. Infrastructure such as streets, traffic signals and signs will be capitalized on a prospective basis. The valuation basis for the general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement costs.

Proprietary fund fixed assets are recorded in the respective funds and depreciated using the straight-line method.

Estimated useful lives, in years, for depreciable assets are as follows:

Lift Station	10
Water System	20 – 50
Sewer	25 – 50
Furniture, fixtures, & equipment	5 – 40
Buildings	45
Infrastructure	50
Vehicles	10

**7. Capitalization of Interest on Fixed Assets**

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. As of February 28, 2006, no interest has been capitalized.

**H. Allowance for Doubtful Accounts**

The Village does not use an allowance for doubtful accounts. Any uncollected amount is included in the residents tax billing.

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**I. Accumulated Unpaid Sick Pay Benefit Amounts**

The Village maintains a policy providing sick pay benefits for its employees. Accrued sick pay is being reported in the Trust and Agency Fund. Annually, the operating funds of the Village will fund any change in this liability.

**J. Fund Balance Reserve**

The Fund Balance Reserve, in the fund basis statements, reflects an offset for inventories and prepaid expenses. Under the modified accrual basis of accounting when inventories and prepaid expenses are reported on the financial statements, they are to be equally offset by a fund balance reserve account. This indicates that even though inventories and prepaid expenses are a component of net current assets, they do not represent an "available spendable resource." The fund balance reserves for the various restricted assets indicates that these restricted assets, reported on the financial statements, are designated by the Village Council for a specific use and, therefore, are not an "available spendable resource."

**K. Retained Earnings Reserve**

Retained earnings reserve for restricted assets represent funds or resources that have also been designated by the Village Council for a particular use.

**L. Post Retirement Benefits**

The Village has entered into an arrangement with its employees by which medical benefits will be provided to the employees after retirement. All of the full-time Village employees are eligible to participate and are participating in the plan. The Village is setting aside funds in a Trust and Agency Fund annually to provide monies for this future cost. As of February 28, 2006, there were five employees eligible under the plan. The estimated liability to the Village had not been calculated. Funds available in the Trust and Agency Fund are \$388,249 as of February 28, 2006.



**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statement, the Village's actual expenditures and budget expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level.

During the year ended February 28, 2006, the Village incurred expenditures in the General and Major Street funds, which were in excess of the amounts appropriated as follows:

Fund	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund:			
Debt Service:			
Interest	\$ 1,312	\$ 1,373	\$ 61
Operating transfers out		29,000	29,000
Major Street Fund			
Operating transfers out		15,007	15,007

**Deficit fund equity**

The following funds have a deficit fund balance as of February 28, 2006:

General Fund	\$337,330
Debt Service Fund	\$2,413

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS**

**A. Assets**

**1. Deposits and Investments**

At year end, the Village's deposits and investments were reported in the basis financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Unit
Cash	\$ 493,867	\$ 1,448,986	\$ 387,144	\$ 2,329,997	\$ 396,976
Cash - restricted		188,557		188,557	
Checks written in excess of deposits	(10,054)			(10,054)	
Total Deposits	<u>\$ 483,813</u>	<u>\$ 1,637,543</u>	<u>\$ 387,144</u>	<u>\$ 2,508,500</u>	<u>\$ 396,976</u>

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**A. Assets - Continued**

**1. Deposits and Investments - Continued**

Cash and deposits are recorded in the financial statements as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank deposits	\$ 1,752,063	\$ 396,976
Certificates of deposit	<u>760,749</u>	<u></u>
Total cash and deposits	<u>\$ 2,512,812</u>	<u>\$ 396,976</u>

At year-end, the carrying amount of the Village's deposits were \$2,905,476 and the bank balance was \$2,909,788 of which \$300,000 was covered by federal depository insurance and \$2,609,788 was uninsured and uncollateralized. The component units deposits are pooled with the primary government to maximize investment earnings.

*Interest Rate Risk* – The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk* - State statutes authorize the Village to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The Village is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The Village has no investment policy that would further limit its investment choices.

*Concentration of Credit Risk* – The Village places no limit on the amount the district may invest in any one issuer.

Restricted cash in the Enterprise Fund in the amount of \$188,557 represents cash restricted to meet bond covenants and future asset purchases.

For purposes of the statement of cash flows, the Village considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**A. Assets - Continued**

**2. Property Taxes Receivable and Property Tax Calendar**

	Mills	Adjusted Levy	Collections	Delinquent Real	Unpaid Personal
Village -					
General	11.25	\$ 629,376	\$ 546,204	\$ 81,162	\$ 2,010
Streets	.75	41,953	35,334	5,410	1,209
Downtown Development Authority	1.00	16,779	14,801	1,978	

Details of the property tax calendar are as follows:

Levy date:	December 31 <sup>st</sup> of prior year
Lien date:	July 1 <sup>st</sup>
Due date:	July 1 <sup>st</sup>
Collection date:	July 1 <sup>st</sup> through September 14 <sup>th</sup>

On September 15th, the Village Treasurer turns the delinquent real taxes over to the County Treasurer for collection. Uncollected taxes as of September 14<sup>th</sup> of each year are purchased by the County tax revolving fund and paid to the Village in October of each year.

Property tax revenues are recognized in the fiscal year for which they have been levied and become available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay current period liabilities. The current period referred to here is a period of time not exceeding 60 days.

The Village's Taxable Value is presented in detail below:

	Village Taxable Value
Real Property	43,222,803
Personal Property	11,224,664
Downtown Development Authority	16,723,446

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**A. Assets - Continued**

**3. Capital Assets**

A summary of the changes in the capital assets of the primary government follows:

<b>Primary Government</b>	<b>Balance 2/28/05</b>	<b>Increases</b>	<b>Decreases/ Transfers</b>	<b>Balance 2/28/06</b>
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 41,421	\$	\$	\$ 41,421
Total capital assets not being depreciated	41,421			41,421
Capital assets, being depreciated				
Buildings	135,906	530,165		666,071
Improvements – land and buildings	929,923			929,923
Equipment and vehicles	973,593	68,522	83,103	959,012
Infrastructure	32,728	12,000		44,728
Total capital assets being depreciated	2,072,150	610,687	83,103	2,599,734
Less accumulated depreciation for:				
Buildings	70,671	3,602		74,273
Improvements – land and buildings	314,288	30,997		345,285
Equipment and vehicles	771,798	46,608	83,103	735,303
Infrastructure	272	895		1,167
Total accumulated depreciation	1,157,029	82,102	83,103	1,156,028
Total capital assets, being depreciated, net	915,121	528,585		1,443,706
Governmental activities capital assets, net	\$ 956,542	\$ 528,585	\$	\$ 1,485,127

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**A. Assets - Continued**

**3. Capital Assets - continued**

	Balance 2/28/05	Increases/ Transfers	Decreases/ Transfers	Balance 2/28/06
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 87,934	\$	\$	87,934
Construction in progress	897,451	515,658	866,121	546,988
	<u>985,385</u>	<u>515,658</u>	<u>866,121</u>	<u>634,922</u>
Total capital assets not being depreciated				
Capital assets, being depreciated				
Buildings	62,661			62,661
Improvements – land and buildings	10,551,139	924,896		11,476,035
Equipment and vehicles	226,023			226,023
	<u>10,839,823</u>	<u>924,896</u>	<u></u>	<u>11,764,719</u>
Total capital assets being depreciated				
Less accumulated depreciation for:				
Buildings	32,038	1,392		33,430
Improvements – land and buildings	2,471,054	235,188		2,706,242
Equipment and vehicles	180,087	7,818		187,905
	<u>2,683,179</u>	<u>244,398</u>	<u></u>	<u>2,927,577</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	<u>8,156,644</u>	<u>680,498</u>	<u></u>	<u>8,837,142</u>
Business-type activities capital assets, net	<u>\$ 9,142,029</u>	<u>\$ 1,196,156</u>	<u>\$ 866,121</u>	<u>\$ 9,472,064</u>

Depreciation expense was charged to functions of the primary government as follows:

<b>Governmental Activities:</b>	
Legislative	\$ 1,224
General government	13,744
Public Safety	28,141
Public works	36,788
Recreation	428
Other	<u>1,777</u>
Total depreciation expense – governmental activities	<u>\$ 82,102</u>
<b>Business-type activities:</b>	
Water fund	\$ 64,346
Sewer fund	<u>180,052</u>
Total depreciation expense – business-type	<u>\$ 244,398</u>

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**B. Liabilities**

**1. Bonds Payable**

Bonds payable at February 28, 2006 are as follows:

Governmental activities:

Downtown Development General Obligation Bonds Payable	
Series 1996 bearing interest from 5.10% to 7.00% and maturing on	
September 1, 2011	\$ 130,000

Business-type activities:

Water Supply and Sewage Disposal System Revenue Bonds – 1996	
Issue bearing interest at 5% and maturing on January 1 <sup>st</sup> of each	
Year until 2015	\$ 490,000
Water supply and Sewage Disposal System Revenue Bonds – 1996	
Issue bearing interest from 3.25% to 7.20% and maturing on	
January 1 <sup>st</sup> of each year until 2016	560,000
Sewage Disposal System Revenue Bonds Series 2002. Interest at 4.5% and	
maturing in 2042	5,063,000
	6,113,000
Less Current Maturities	106,000
	\$ 6,007,000

The annual requirements to amortize long-term obligations outstanding as of February 28, 2006 are as follows:

Year ending February 28,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 20,000	\$ 7,242	\$ 106,000	\$ 281,486
2008	20,000	6,162	123,000	275,070
2009	20,000	5,082	125,000	268,490
2010	20,000	3,982	137,000	245,430
2011	25,000	2,862	139,000	254,890
2012-2016	25,000	1,438	818,000	1,163,760
2017-2021			650,000	993,378
2022-2026			775,000	835,878
2027-2031			900,000	650,252
2032-2036			1,020,000	436,502
2037-2041			1,095,000	199,576
2042			225,000	10,126
	\$ 130,000	\$ 26,768	\$ 6,113,000	\$ 5,631,188

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**B. Liabilities – Continued**

**1. Bonds Payable - continued**

For the 1996 Issue, Bond Ordinance No. A-26 requires a quarterly payment to be deposited in a special bond redemption fund until the sum of \$80,000 has been attained and additional quarterly deposits in a bond and interest redemption fund account to cover current principal and interest maturities. The Village currently has \$73,852 in this account.

For the 1996 Issue, Bond Ordinance No. 432 and all provisions of Ordinance No. A-26, except that in the event the Outstanding Bonds are no longer outstanding the provisions requiring the consent of Farmers Home Administration no longer apply. Bond ordinance No. A-26 requires the Bond Reserve Account be further increased by the quarterly deposit of funds beginning July 1, 1996 and ending April 1, 2006 until another sum of \$80,000 has been attained. The Village currently has \$114,705 in this account.

Changes in bonds payable were as follows:

	Balance 2/28/05	Additions	Payments	Balance 2/28/06	Due Within One Year
<u>Governmental Activities:</u>					
1996 Downtown Development Bonds (Limited Tax General Obligation Bonds)	\$ 145,000	\$	\$ 15,000	\$ 130,000	\$ 20,000
<u>Business-type Activities:</u>					
1996 Water Supply and Sewage Disposal Revenue Bonds	\$ 525,000	\$	\$ 35,000	\$ 490,000	\$ 35,000
1996 Water Supply and Sewage Disposal Revenue Bonds	610,000		50,000	560,000	50,000
2003 Sewage Disposal System Revenue Bonds	5,052,000	40,000	29,000	5,063,000	21,000
	<u>\$ 6,187,000</u>	<u>\$ 40,000</u>	<u>\$ 114,000</u>	<u>\$ 6,113,000</u>	<u>\$ 106,000</u>

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**B. Liabilities – Continued**

**2. Notes Payable**

Governmental Activities:

Note payable – Michigan Department of Transportation, annual Payments of \$6,951, including interest at 4.41%. Matures July 2009	<u>\$ 25,065</u>
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Business-type Activities:

<p>Note payable – Michigan Economic Development Corporation, The Village can earn credits of \$3,323 toward the repayment of the loan for each new job created within the Kalkaska Industrial Park through February 28, 2007. Credits may not exceed 50% of the loan balance plus accrued interest. Interest accrues at 5%. Principal and interest payments commence on May 1, 2006. As of February 28, 2006, no Credits have been earned.</p>	206,350
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<p>Note payable – Kalkaska County Industrial Development Corporation, repayment based on sale of lots in the Kalkaska Industrial Park. Upon the sale of each lot 30% of the net proceeds shall be paid to the mortgagor until 70% of the purchase price has been paid, then 100% of the net sale price shall be paid to the mortgagor until paid in full. There will be no interest charged on any part of the unpaid balance</p>	<u>22,279</u> <u>\$ 228,629</u>
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The Note payable – MEDC does not amortize until May 1, 2006. Note payable (Michigan Department of Transportation) matures as follows:

2007	\$ 5,829
2008	6,091
2009	6,365
2010	<u>6,780</u>
	<u>\$ 25,065</u>



**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**B. Liabilities - continued**

**3. Capital lease payable**

The Village has one capital lease payable outstanding as of February 28, 2006. The amortization expense is reported with depreciation expense in the Sewer Fund. The asset is reported with the Sewer fund Improvements.

Assets under capital lease payable	\$ 124,430
Accumulated amortization as of 2/28/06	<u>15,208</u>
Net assets under capital lease	<u><u>\$ 109,222</u></u>

The liability for the capital lease is recorded in the Sewer fund.

Capital lease payable	<u><u>\$ 71,040</u></u>
Future minimum lease payments are as follows:	
2007	\$ 29,120
2008	29,120
2009	19,413

**4. Risk management**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Village has purchased commercial insurance for medical benefits claims and participates in the Michigan Municipal League & Property Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation.

This policy complies with Act 294, P.A. 1972, as amended.

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**C. Interfund Transactions**

Following is a description of the basic types of interfund transactions made during the year and the related accounting policy:

Transactions for services rendered or facilities provided; these transactions are recorded as revenue in the receiving fund and expenditures in the disbursing fund.

Transactions to transfer revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them; these transactions are recorded as transfers in and transfers out.

Interfund receivables or payables as of February 28, 2006 were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 250	\$ 530,596
Major Street Fund	160,000	
Local Street Fund	106,000	
Justice Training Fund	346	
Sewer Fund	<u>264,000</u>	
	<u>\$ 530,596</u>	<u>\$ 530,596</u>

Amounts in the general fund due to the Local Street, Major Street and Sewer Funds will be repaid to those funds over next 20 years. The amounts are as follows: Major Street - \$160,000; Local Street - \$106,000; Sewer Fund - \$264,000.

Interfund transfers consisted of the following transactions:

General Fund - Transfers Out:

To: Trust & Agency – Postretirement benefit fund	\$ 29,000
Equipment fund	15,007
From: General Fund	(29,000)
Major Street Fund	<u>(15,007)</u>
Total	<u>\$ -</u>

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4: SEGMENT INFORMATION FOR THE ENTERPRISE FUNDS**

The Village maintains two Enterprise Fund which provides water and sewer services. Segment information for the year ended February 28, 2006 is as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Operating revenues (including interest)	\$ 381,502	\$ 734,300
Depreciation	64,346	180,052
Operating income (loss)	113,320	175,819
Change in net assets	589,220	29,234
Property, plant, and equipment		
Additions	875,545	25,618
Net working capital	237,188	898,918
Total assets	3,122,374	8,372,571
Bonds outstanding	431,400	5,681,600
Net assets	2,306,007	2,342,051

**NOTE 5: ACCUMULATED UNPAID SICK PAY BENEFIT AMOUNTS**

The Village policy allows each employee to accumulate the equivalent of a maximum sick time of 600 hours. At current rates, the Village, as of February 28, 2006, had accrued \$51,498 of sick and vacation pay which is recorded in the Village's Payroll Fund.

**NOTE 6: EMPLOYEES RETIREMENT SYSTEM**

**A. Plan Description**

The Village has an agent multi-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan. The MERS was organized pursuant to Act No. 427, Public Acts 1984, as amended, and the Constitution of the State of Michigan. The Village has no administrative responsibility for the plan. The Michigan Municipal Retirement System issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing Municipal Employee Retirement Systems of Michigan, Lansing, Michigan 48917 or calling (517) 622-4401.

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6: EMPLOYEES RETIREMENT SYSTEM - Continued**

**B. Funding Policy**

The plan provides for vesting of benefits after 10 years of credited service for all full-time employees. Effective March 1, 1999 all full-time police officers are able to obtain tenure after six years of full-time service, excluding the police chief. Participants may elect normal retirement at age 60 with 10 or more years of service. The plan also provides for early retirement at age 55 with 15 or more years of service, and at age 50 with 25 or more years of service. Election of early retirement is subject to reduction of benefits as outlined below.

The retirement allowance is reduced ½% of 1% for each complete month retirement benefits are available. The plan provides that the employer/employee contribute amounts necessary to fund the actuarially determined benefits. The Village makes employer contributions in accordance with funding requirements determined by MERS' actuary, until such time as the contributions exceed 9% of covered payroll whereon the Village is directed to make withholdings from salaries and wages of eligible employees and forward these to MERS. The MERS' actuary uses the entry age normal actuarial cost method.

**C. Annual Pension Costs**

The Village's pension cost for the fiscal year ending February 28, 2006, 2005 and 2004 was \$98,158, \$72,075 and \$57,774 respectively. The required contribution was determined as part of December 31, 2005 actuarial valuation using the entry age normal actuarial cost method.

The significant actuarial assumptions to be used to compute the actuarial accrued liabilities are as follows: (1) the entry age normal actuarial cost method of valuation was used in determining age and service benefit liabilities and normal cost; (2) an 8% rate of return on investment of present and future assets was used based on estimated long-yield considering (a) the nature and mix of current and expected investments; and (b) the basis used to value those assets; (3) projected salary increases are based on 4.5% raises for merit, seniority, and inflation rate allowances. Benefits will not increase after retirement except that some participants will receive cost of living allowances. Unfunded accrued liabilities are amortized over 40 year period reduced by one year until it reaches 30.

**D. Trend Information**

	2006	2005	2004
Actuarial value of assets	\$ 2,377,156	\$ 2,282,273	\$ 2,224,991
Actuarial Accrued Liability (entry age)	3,585,994	3,381,701	3,095,480
Unfunded Actuarial Accrued Liability (UAAL)	1,208,838	1,099,428	870,489
Funded Ratio	50.8%	67.5%	71.8%
Covered Payroll	512,902	513,246	504,360
UAAL as a percent of covered payroll	42.43%	46.68%	57.94%

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7: POSTRETIREMENT PLAN OTHER THAN PENSIONS**

The Village has a postretirement plan other than pensions for health insurance coverage. For Permanent employees - salaries, hourly and appointed the plan provides as follows:

Employees 55 years of age or older that retire with at least fifteen (15) years of service with the Village of Kalkaska shall receive family health insurance coverage for a period of three years - paid in full by the Village. Specifically named employees are to receive lifetime hospitalization on both employee and spouse, paid in full by the Village in addition to the three (3) years family coverage and applies only to employees who have worked the required number of years and retire at age 55 or older. In case the eligible employee predeceases the spouse, the spouse will continue to receive this benefit for their lifetime.

For Police Department employees, the plan provides:

Employees 55 years of age or older that retire with at least fifteen (15) years of service with the Village of Kalkaska shall receive existing health insurance paid in full by the Village for life.

The Village has established a separate fund to account for the financing of the plan. Monies were transferred in 2006 to the fund in the amount of \$29,000. Interest earned on these monies are being maintained in the Fund. The Fund had accumulated \$388,249 as of February 28, 2006. Any amounts not available in the Fund to meet costs will be the general obligation of the Village. The Village has not accrued any liability under the plan at February 28, 2006. At February 28, 2006, the Village had five retirees participating in the plan. There were no expenses incurred or reflected, by the Village, in the financial statements for the year ended February 28, 2006.

**NOTE 8: EMPLOYEE BENEFIT PROGRAM**

The Village adopted an employee benefit program effective October 1, 1990. The intention of the Village is that the Plan qualify as a "Cafeteria Plan" within the meaning of Section 125 of the Internal Revenue Code of 1986, as amended, and that the benefits which an Employee elects to receive under the Plan be includable or excludable from the Employee's income under Section 125(a) and other applicable sections of the Internal Revenue Code of 1986, as amended.

Each eligible employee may elect to have the amount of their employer contributions applied to any one or more of a health insurance and/or cash benefit.

**NOTE 9: COMMITMENTS**

The Village has begun a construction process to build an iron removal plant for \$1,190,476. The Village has received a grant from the State of Michigan for \$1,000,000. Expenses to date are \$639,091, and have received \$497,646 from the grant as of February 28, 2006

## **REQUIRED SUPPLEMENTARY INFORMATION**

**VILLAGE OF KALKASKA**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 575,200	\$ 612,008	\$ 575,365	\$ (36,643)
Licenses and permits	3,300	1,200		(1,200)
State grants	220,200	223,900	193,048	30,852)
Contributions from local units	7,000	5,930	5,901	(29)
Charges for services	9,000	9,000	9,715	715
Fines	12,000	28,500	25,523	(2,977)
Interest, rents, royalties	15,904	68,404	69,078	674
Other	30,930	2,400	600	(1,800)
<b>TOTAL REVENUES</b>	<b>875,534</b>	<b>951,342</b>	<b>879,230</b>	<b>(72,112)</b>
EXPENDITURES:				
Current:				
Legislative	50,931	59,831	50,268	9,563
General government	208,208	708,953	659,728	49,225
Public safety	483,254	499,739	455,143	44,596
Public works	62,724	95,747	91,124	4,623
Recreation	18,333	23,533	16,230	7,303
Other	43,133	85,588	66,003	19,585
Debt service:				
Principal	5,639	5,639	5,578	61
Interest	1,312	1,312	1,373	(61)
<b>TOTAL EXPENDITURES</b>	<b>873,534</b>	<b>1,480,342</b>	<b>1,345,447</b>	<b>134,895</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(529,000)	(466,217)	(62,783)
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)			(29,000)	(29,000)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$</u>	<u>\$ (529,000)</u>	(495,217)	<u>\$ (33,783)</u>
FUND BALANCE, beginning			<u>157,887</u>	
FUND BALANCE, ending			<u>\$ (337,330)</u>	

**VILLAGE OF KALKASKA**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**MAJOR STREET FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
State grants	\$ 153,200	\$ 159,200	\$ 145,547	\$ (13,653)
Charges for services	6,000	11,100	11,110	10
Interest	200	3,002	3,418	416
Other		100	36	(64)
TOTAL REVENUES	159,400	173,402	160,111	(13,291)
EXPENDITURES:				
Public works:				
Highways, streets and bridges:				
Routine maintenance	32,955	30,056	21,479	8,577
Street maintenance	43,800	44,600	44,088	512
Traffic service	5,909	5,959	4,606	1,353
Winter maintenance	51,054	69,854	46,883	22,971
Roadside parks	10,748	8,948	1,618	7,330
Administrative	14,934	15,185	11,764	3,421
TOTAL EXPENDITURES	159,400	174,602	130,438	44,164
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(1,200)	29,673	30,873
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)			(15,007)	(15,007)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$	\$ (1,200)	14,666	\$ 15,866
FUND BALANCE, beginning			327,208	
FUND BALANCE, ending			\$ 341,874	



**VILLAGE OF KALKASKA**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**LOCAL STREET FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 42,000	\$ 45,500	\$ 39,745	\$ (5,755)
State grants	50,700	56,700	51,504	(5,196)
Charges for services	6,000	6,000	3,030	(2,970)
Interest	400	3,311	2,753	(558)
Other	10,050	10,050		(10,050)
<b>TOTAL REVENUES</b>	<b>109,150</b>	<b>121,561</b>	<b>97,032</b>	<b>(24,529)</b>
EXPENDITURES:				
Public works:				
Highways, streets and bridges:				
Routine maintenance	31,703	33,446	30,179	3,267
Street maintenance	37,300	34,000	33,499	501
Traffic service	9,408	3,008	632	2,376
Winter maintenance	21,537	37,737	33,416	4,321
Administrative	15,068	13,370	11,418	1,952
<b>TOTAL EXPENDITURES</b>	<b>115,016</b>	<b>121,561</b>	<b>109,144</b>	<b>12,417</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,866)</u>		<u>(12,112)</u>	<u>(12,112)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)				
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (5,866)</u>	<u>\$</u>	<u>(12,112)</u>	<u>\$ (12,112)</u>
FUND BALANCE, beginning			<u>184,850</u>	
FUND BALANCE, ending			<u>\$ 172,738</u>	

**VILLAGE OF KALKASKA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**NOTE 1 – BUDGETARY COMPARISON SCHEDULES**

The Village of Kalkaska is not legally required to present budgetary information for debt service funds. Accordingly, the budgetary comparison schedules for the DDA Debt Service fund is not required.

## **SUPPLEMENTARY DATA SECTION**

**VILLAGE OF KALKASKA**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 612,008	\$ 575,365	\$ (36,643)
Licenses and permits	1,200		(1,200)
State grants	223,900	193,048	(30,852)
Contributions from local units	5,930	5,901	(29)
Charges for services	9,000	9,715	715
Fines	28,500	25,523	(2,977)
Interest, rents, royalties	68,404	69,078	674
Other	2,400	600	(1,800)
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	951,342	879,230	(72,112)
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Legislative:			
Village Council	59,831	50,268	9,563
General government:			
Administrative	630,621	610,208	20,413
Municipal building	77,032	49,520	27,512
Other buildings & ground activities	1,300		1,300
Public safety:			
Police department	499,539	455,143	44,396
Fire	200		200
Public works	95,747	91,124	4,623
Recreation:			
Recreation			
Parks	23,533	16,230	7,303
Other:			
Insurance and bonds	24,850	24,527	323
Parking lots	25,883	19,417	6,466
Airport	34,855	22,059	12,796
Debt service:			
Principal	5,639	5,578	61
Interest	1,312	1,373	(61)
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	1,480,342	1,345,447	134,895
	<hr/>	<hr/>	<hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(529,000)	(466,217)	(62,783)
	<hr/>	<hr/>	<hr/>

**VILLAGE OF KALKASKA**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**  
**(CONTINUED)**

	Amended Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES (from previous page)	\$ (529,000)	\$ (466,217)	\$ (62,783)
OTHER FINANCING SOURCES (USES):			
Operating transfers in (out)	<u>                    </u>	<u>(29,000)</u>	<u>(29,000)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	<u>\$ (529,000)</u>	(495,217)	<u>\$ (33,783)</u>
FUND BALANCE, beginning		<u>157,887</u>	
FUND BALANCE, ending		<u>\$ (337,330)</u>	

**VILLAGE OF KALKASKA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
FEBRUARY 28, 2006**

		Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
		Drug Enforcement	Justice Training	Total	Village Improvement	
<b>ASSETS</b>						
Cash		\$ 3,298	\$ 2,116	\$ 5,414	\$ 23,941	\$ 29,355
Accounts receivable			520	520		520
Due from other funds			346	346		346
<b>TOTAL ASSETS</b>		<u>\$ 3,298</u>	<u>\$ 2,982</u>	<u>\$ 6,280</u>	<u>\$ 23,941</u>	<u>\$ 30,221</u>
<b>LIABILITIES &amp; FUND BALANCE</b>						
<b>LIABILITIES</b>						
Accounts payable		\$	\$	\$	\$	\$
Due to other funds						
<b>TOTAL LIABILITIES</b>						
<b>FUND BALANCE</b>						
Unreserved:						
Undesignated		<u>3,298</u>	<u>2,982</u>	<u>6,280</u>	<u>23,941</u>	<u>30,221</u>
<b>TOTAL FUND BALANCE</b>		<u>3,298</u>	<u>2,982</u>	<u>6,280</u>	<u>23,941</u>	<u>30,221</u>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>		<u>\$ 3,298</u>	<u>\$ 2,982</u>	<u>\$ 6,280</u>	<u>\$ 23,941</u>	<u>\$ 30,221</u>

**VILLAGE OF KALKASKA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

	Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
	Drug Enforcement	Justice Training	Total	Village Improvement	
REVENUES:					
State grants	\$	\$ 1,124	\$ 1,124	\$	\$ 1,124
Interest		4	4		4
TOTAL REVENUES		1,128	1,128		1,128
EXPENDITURES:					
Public safety & police		1,316	1,316		1,316
TOTAL EXPENDITURES		1,316	1,316		1,316
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		(188)	(188)		(188)
FUND BALANCE, beginning	3,298	3,170	6,468	23,941	30,409
FUND BALANCE, ending	<u>\$ 3,298</u>	<u>\$ 2,982</u>	<u>\$ 6,280</u>	<u>\$ 23,941</u>	<u>\$ 30,221</u>

**VILLAGE OF KALKASKA**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DOWNTOWN DEVELOPMENT AUTHORITY - A COMPONENT UNIT**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 16,541	\$ 109,766	\$ 93,225
Interest	10	107	97
Other revenue	1,600	225	(1,375)
TOTAL REVENUES	<u>18,151</u>	<u>110,098</u>	<u>91,947</u>
EXPENDITURES:			
Public works:			
Highways, streets, and bridges:			
Administration	<u>24,753</u>	<u>24,102</u>	<u>651</u>
TOTAL EXPENDITURES	<u>24,753</u>	<u>24,102</u>	<u>651</u>
EXCESS OF REVENUES OVER (UNDER)			
EXPENDITURES	<u>\$ (6,602)</u>	85,996	<u>\$ 92,598</u>
FUND BALANCE, beginning		<u>346,573</u>	
FUND BALANCE, ending		<u>\$ 432,569</u>	



**VILLAGE OF KALKASKA**  
**SCHEDULE OF REVENUE BONDS PAYABLE**  
**1996 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS**  
**FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2006**

**Schedule A**

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>
5.25% to 7.20%	June 1, 1996	NBD	\$740,000

  

<u>Maturity January 1,</u>	<u>Principal Amount</u>	<u>January 1,</u>	<u>Interest Due July 1,</u>	<u>Total</u>
2006	\$	\$	14,588	14,588
2007	35,000	14,588	13,590	63,178
2008	40,000	13,590	12,430	66,020
2009	40,000	12,430	11,250	63,680
2010	45,000	11,250	9,900	66,150
2011	45,000	9,900	8,550	63,450
2012	50,000	8,550	7,050	65,600
2013	55,000	7,050	5,400	67,450
2014	55,000	5,400	3,750	64,150
2015	60,000	3,750	1,950	65,700
2016	65,000	1,950		66,950
	<u>\$ 490,000</u>	<u>\$ 88,458</u>	<u>\$ 88,458</u>	<u>\$ 666,916</u>

**VILLAGE OF KALKASKA  
SCHEDULE OF WATER AND SEWAGE DISPOSAL  
SYSTEM REVENUE BONDS 1975 ISSUE  
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2006**

**Schedule B**

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS 1975

<u>Bond Numbers</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>February 28, 2006</u>
	01/01/96	\$1,350,000			
159-168			5%	01/01/07	50,000
169-179			5%	01/01/08	55,000
180-190			5%	01/01/09	55,000
191-202			5%	01/01/10	60,000
203-214			5%	01/01/11	60,000
215-227			5%	01/01/12	65,000
229-241			5%	01/01/13	70,000
242-255			5%	01/01/14	70,000
256-270			5%	01/01/15	<u>75,000</u>
Total					<u>\$ 560,000</u>

**VILLAGE OF KALKASKA  
SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE  
1996 DOWNTOWN DEVELOPMENT BONDS  
(LIMITED TAX GENERAL OBLIGATION)  
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2006**

**Schedule C**

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>
5.10% to 7.00%	May 1, 1996	NBD	\$240,000

  

<u>Maturity September 1,</u>	<u>Principal Amount</u>	<u>March 1,</u>	<u>Interest Due September 1,</u>	<u>Total</u>
2006	\$ 20,000	\$	\$ 3,621	\$ 23,621
2007	20,000	3,081	3,081	26,162
2008	20,000	2,541	2,541	25,082
2009	20,000	1,991	1,991	23,982
2010	25,000	1,431	1,431	27,862
2011	25,000	719	719	26,438
	<u>\$ 130,000</u>	<u>\$ 9,763</u>	<u>\$ 13,384</u>	<u>\$ 153,147</u>

**VILLAGE OF KALKASKA**  
**SCHEDULE OF SEWAGE DISPOSAL SYSTEM REVENUE BONDS**  
**FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2006**

**Schedule D**

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>	
4.5%	July 1, 2005	RDA	\$ 5,154,000	
<u>Maturity January 1,</u>	<u>Principal Amount</u>	<u>Interest Due</u>		<u>Total</u>
		<u>July 1,</u>	<u>January 1,</u>	
2007	21,000	114,030	114,030	249,060
2008	28,000	113,445	113,445	254,890
2009	30,000	112,815	112,815	225,630
2010	32,000	112,140	112,140	256,280
2011-2015	192,000	549,000	549,000	1,290,000
2016-2020	605,000	510,301	510,301	1,625,602
2021-2025	750,000	434,814	434,814	1,619,628
2026-2030	875,000	344,814	344,814	1,564,628
2031-2035	1,000,000	240,751	240,751	1,481,502
2036-2040	1,080,000	124,088	124,088	1,328,176
2041-2042	450,000	15,188	15,188	480,376
	<u>\$ 5,063,000</u>	<u>\$ 2,671,386</u>	<u>\$ 2,671,386</u>	<u>\$ 10,405,772</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

May 18, 2006

To the Village Council  
Village of Kalkaska  
Kalkaska, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Kalkaska as of and for the year ended February 28, 2006, which collectively comprise the Village of Kalkaska's basic financial statements and have issued our report thereon dated May 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Village of Kalkaska's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the Village of Kalkaska in a separate letter dated May 18, 2006.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Village of Kalkaska' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to the management of the Village of Kalkaska in a separate letter dated May 18, 2006.

This report is intended solely for the information and use of the Village Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants



**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

May 18, 2006

To the Village Council  
Village of Kalkaska  
Kalkaska, Michigan

**Compliance**

We have audited the compliance of Village of Kalkaska with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended February 28, 2006. Village of Kalkaska's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Village of Kalkaska's management. Our responsibility is to express an opinion on Village of Kalkaska's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Village of Kalkaska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Village of Kalkaska's compliance with those requirements.

In our opinion, Village of Kalkaska complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended February 28, 2006.

### **Internal Control Over Compliance**

The management of Village of Kalkaska is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contract and grants applicable to federal programs. In planning and performing our audit, we considered Village of Kalkaska's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more on the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Village Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants



**VILLAGE OF KALKASKA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>Federal Grants</u>			
Department of Housing and Urban Development, Passed through the Michigan Economic Development Corporation Community Development Block Grant	14.228	MSC 203076	\$ 497,646
<u>Federal Loans/Loan Guarantees</u>			
U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760		<u>40,000</u>
Total Federal Grants and Loans/Loan Guarantees			<u><u>\$ 537,646</u></u>

**VILLAGE OF KALKASKA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2006**

NOTES:

1. Basis of presentation – The accompanying schedule of expenditures of federal awards includes the grant activity of Village of Kalkaska and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the general purpose financial statements.
2. Community Development Block Grant CFDA #14.228, were audited as a major programs, representing 92.5% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. The Village of Kalkaska had the following loan balances outstanding at February 28, 2006. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA #</u>	<u>Amount Outstanding</u>
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 5,063,000
Community Development Block Grant/Loan	14.228	206,350

**VILLAGE OF KALKASKA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED FEBRUARY 28, 2006**

**Section I – Summary of Auditors' Results**

**Financial statements**

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified: ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit finding disclosed that are required to be reported with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)  
14.228

Name of Federal Program  
Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

**Section II – Financial Statement Findings**

None.

**VILLAGE OF KALKASKA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED FEBRUARY 28, 2006  
(Continued)**

**Section III – Federal Award Findings and Questioned Costs**

None.

**VILLAGE OF KALKASKA  
SCHEDULE OF PRIOR AUDIT FINDINGS**

None



May 18, 2006

To the Members of the Village Council  
Village of Kalkaska  
Kalkaska, Michigan

In planning and performing our audit of the financial statements of the Village of Kalkaska for the year ended February 28, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Village of Kalkaska's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties.

#### Receipt Testing

During our testing of cash receipts, the source documents did not contain the general ledger posting account information. This information is necessary to determine that cash receipts are posted to the correct account. We were able to satisfy our audit requirements with alternative procedures. Subsequent to the audit fieldwork, adjustments have been made to the source documents to allow general ledger coding.

#### Investment Policy

Governmental Accounting Standards Board has issued Statement #40, *Deposit and Investment Risk Disclosures*, which is effective for the February 28, 2006 annual financial statements. The objective of this statement is to update the custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. This statement requires a brief description of the deposit or investment policies that are related to the risks that GASB 40 requires to be disclosed, including Custodial Credit Risk, Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk.

Investment Policy - continued

Although GASB 40 does not specifically require an Investment Policy, governmental units will certainly want to consider adopting an updated policy. You will need to disclose in your annual audit footnotes:

- the government's investment policy for any specific type of risk to which the district is exposed, or
- the fact that your governmental unit has no investment policy that addresses the specific type of risk to which the district is exposed.

We can offer examples of investment policies which address the requirements of the standard. The Village is generally conservative minded when investing its excess deposits, but a policy which defines that risk level of the Village will protect its investments.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information and use of the Village Council, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants